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SUBJECT: NEW AUSTRALIAN CAR PLAN ANNOUNCED

REF: A) Canberra 100; B) Melbourne 125

¶1. (U) Summary. On November 10, Prime Minister Kevin Rudd and Industry Minister Kim Carr released the GOA's response to the Bracks Review of the car industry. The 'New Car Plan for a Greener Future' aims to make the car industry more responsive to changing consumer demand, environmental policy and difficult world conditions. The plan is a A$3.2 billion, ten-year initiative to be brought forward to start in 2009. It is expected to stimulate A$12 billion in new car investment by 2020. The car industry has supported the plan; others are critical. While the car manufacturers have presented themselves as Australian as meat pie, some are criticizing handing over the equivalent of A$300,000 per auto company employee to three foreign companies. End summary.

OUTLINE OF THE CAR PLAN

¶2. (U) The A$7.7 billion (US$5.1 billion at current exchange rates) automotive industry presents itself as critical to Australia's economic future because it employs over 60,000 and plays a role in national R&D, overall exports and some defense-related capability. Prime Minister Rudd has said he will not "abandon" car production, which he sees as a "cornerstone" of manufacturing. The GOA in its response remained committed to cutting tariffs on imported vehicles as previously scheduled from 10 to 5 per cent in 2010, "resulting in the third-lowest tariff regime among economies with a well-developed automotive industry". Rudd said that Australia will continue to pursue a free trade agenda because the future of the industry lies in innovation and global integration, not industry protection with "old fashioned quotas and tariffs."

¶3. (U) The Government's New Car Plan increases the total level of assistance to A$6.2 billion between 2008-09 and 2020-21, of which A$3 billion is already committed, and A$3.2 billion is net new funding. Between 2011 and 2020, the industry will receive A$3.4 billion in an Automotive Transformation Scheme (ATS). A Green Car Innovation Fund of A$1.3 billion will encourage companies to manufacture low-emissions vehicles and move to consolidate component manufacturing. Overall, the plan is expected to generate $16 billion in investment in the industry, in new capacity and new technologies. The Automotive Competitiveness and Investment Scheme will smooth the transition to the ATS (A$79.6 million) from 2010. There is A$116.3 million to promote structural adjustment in the components sector for labour market adjustment. A further A$20 million from 2009-10 will assist suppliers integrate into national and global supply chains. There will be A$6.3 million from 2009-10 for an enhanced market access program.

SOME DETAILS

¶4. (U) The Automotive Transformation Scheme will replace the Automotive Competitiveness and Investment Scheme (ACIS) Stage 3, which was to run from 2011 to 2015. The new scheme puts more emphasis on investment in research and development to increase competitiveness and productivity - particularly in the supply chain.

It will include (1) capped assistance of A$1.5 billion over 2011 to 2015 (up from the A$1 billion planned for ACIS Stage 3); and (2) new capped assistance of A$1 billion over 2016 to 2020. Assistance will be in the form of grants rather than duty credits. Capped funding will continue to be split 55 per cent to vehicle producers and 45 per cent to the supply chain. All participants will be eligible to claim 15 per cent of their investment in approved plant and equipment (the supply chain can currently claim 25 per cent and Qequipment (the supply chain can currently claim 25 per cent and vehicle producers 10 per cent). Supply chain participants will be eligible to claim 50 per cent of their investment in approved R&D (up from 45 per cent), and the list of eligible R&D activities will be streamlined. Recruitment and management will no longer count as R&D activities.

ENVIRONMENTAL ASPECTS OF CAR ASSISTANCE

¶5. (U) The Green Car Plan will feature an expanded A$1.3 billion Green Car Innovation Fund to provide Australian car companies with the opportunity to receive Government funding to design and sell environmentally friendly cars. The Innovation Fund involves the GOA matching industry investment in green cars on a one to three dollar basis over a ten year period from 2009. The Green Car Plan is part of the GOA's green investment strategy to "transform Australia's economy into a low-carbon emission, internationally-competitive economy of the future". It aims to support the production in Australia of "competitive, low-emission, fuel-efficient vehicles in Australia". Further, a A$10.5 million expansion of the LPG vehicle scheme immediately doubles payments to purchasers of new vehicles using LPG technology.

INDUSTRY AND UNION RESPONSES TO THE CAR PLAN

¶6. (U) Australia's car industry has welcomed the GOA's plan to take the sector to 2020. Ford Australia President Marin Burela is encouraged by the Government's announcement. Ford announced last month it would shed 450 workers in Melbourne and Geelong; now Burela says he does not see any need for further job cuts. GM/Holden Chairman Mark Reuss also greeted the report, saying it encouraged long term innovation and investment. The Federal Chamber of Automotive Industries says the onus is now on manufacturers to embrace more environmentally friendly technologies. The Australian Manufacturing Workers Union unsurprisingly supports the car plan since it could attract more than A$16 billion in investment to the industry and perhaps slow or stop further job losses.

AND SOME CRITICISMS

¶7. (U) Others were critical. Graham Spurling, the former managing director of Mitsubishi's Australia operation, which closed earlier this year (ref A), said this gave the car companies a "free ride" on R&D, and said the focus should have been on making car components manufacturers more efficient and financially viable (the sector is fragmented and made up largely of small firms). Other critics noted that under the plan, companies would have to put up money before getting any GOA funds - and GM and Ford may not be in a position to do so. Others have said this was just the GOA pandering to unions. The libertarian Institute for Policy Analysis doubts the plan will help and said the auto industry's problem was simply that they have failed to make vehicles that consumers want.

¶8. (SBU) A number of contacts at the Treasury Department, the Department of Prime Minister and Cabinet and the Prime Minister's Office have told us over the past few months that additional assistance to the auto industry was a foregone conclusion - the only question was the level. All privately said that assistance to the auto industry is difficult to justify in purely economic terms. The three manufacturers (who will receive the vast majority of the aid) will receive assistance worth over A$300,000 per employee. Even looking at the impact on the overall auto sector, the new plan comes to over A$50,000 in government assistance per employee. One Treasury contact pointed out that this amounts to a very large subsidy for three foreign companies.

COMMENT

¶9. (SBU) No surprises here. The Rudd government has continually expressed its support for the car industry and 'New Car Plan for a Greener Future' aims to restructure the industry and make it more internationally competitive. The plan tries to harness the environmental policy aims of increasing fuel efficiency and reducing greenhouse emissions with the political imperative of trying to preserve the viability of the largest part of Australia's manufacturing sector. It is notable though that, despite pressure from Ford and Holden, the GOA stuck to its commitment not to change the scheduled reduction of tariffs on autos.

¶10. (SBU) Comment, continued. The closure of Mitsubishi and job losses among Ford, Holden and component suppliers have led to a sense of urgency over the industry's prospects for survival. The GOA hopes this package will help increase both confidence in the industry and business investment to support a more competitive industry. But the Australian automotive sector will remain vulnerable. It is a low-volume producer in a country that already imports 80 percent of vehicles sold in the domestic market. It is part of an increasingly competitive international market, and Holden Qpart of an increasingly competitive international market, and Holden and Toyota are heavily reliant (and therefore vulnerable) on exports to the Middle East. The one ray of light is the fall in the value of the Australian dollar, which should make domestically manufactured vehicles more competitive. End comment.

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